

CONTRACT #2
RFS # 318.65-128

**Department of Finance &
Administration**

Bureau of TennCare

VENDOR:
**First Health Services
Corporation**



STATE OF TENNESSEE
BUREAU OF TENNCARE
310 Great Circle Road
NASHVILLE, TENNESSEE 37243

March 12, 2007

Mr. Jim White, Director
Fiscal Review Committee
8th Floor, Rachel Jackson Bldg.
Nashville, TN 37243

Attention: Ms. Leni Chick

RE: Bureau of TennCare
First Health Services Corporation, Amendment #5

Dear Mr. White:

The Department of Finance and Administration, Bureau of TennCare, is submitting for consideration by the Fiscal Review Committee amendment #5 to First Health Services Corporation, Inc., FA-04-15757-00.

First Health was identified by competitive means as the contractor to provide Point of Sale (POS) Pharmacy Claims Processing and Preferred Drug List Development and Management. The proposed amendment will provide additional administrative services to reduce net costs for diabetic testing supplies by selecting two preferred products. Services provided under this amendment include contracting, utilization steerage and rebate collection. Diabetic testing supplies are not included in the CMS Medicaid or First Health supplemental rebate programs because they are designated as devices. The anticipated rebate capture through this amendment is approximately \$500,000 monthly; therefore, no additional funds are associated with this amendment.

The Bureau of TennCare would greatly appreciate the consideration and approval of this amendment by the Fiscal Review Committee.

Sincerely,


Scott Pierce
Chief Financial Officer

cc: Darin J. Gordon, Deputy Commissioner
Alma Chilton

RECEIVED

MAR 12 2007

FISCAL REVIEW

REQUEST: NON-COMPETITIVE AMENDMENT

APPROVED

Commissioner of Finance & Administration
Date:

EACH REQUEST ITEM BELOW MUST BE DETAILED OR ADDRESSED AS REQUIRED.

1) RFS #	318.65-128	
2) State Agency Name :	Department of Finance and Administration, Bureau of TennCare	
EXISTING CONTRACT INFORMATION		
3) Service Caption :	Point (POS) Pharmacy Claims Processing and Preferred Drug List Development and Management	
4) Contractor :	First Health Services Corporation	
5) Contract #	FA-04-15757-00	
6) Contract Start Date :	January 1, 2004	
7) <u>Current</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2006	
8) <u>Current</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$37,900,000.00	
PROPOSED AMENDMENT INFORMATION		
9) <u>Proposed</u> Amendment #	5	
10) <u>Proposed</u> Amendment Effective Date : (attached explanation required if date is < 60 days after F&A receipt)	Upon Execution of Amendment Explanation Attached	
11) <u>Proposed</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2007	
12) <u>Proposed</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$37,900,000.00	
13) Approval Criteria : (select one)	<input checked="" type="checkbox"/> use of Non-Competitive Negotiation is in the best interest of the state <input type="checkbox"/> only one uniquely qualified service provider able to provide the service	
14) Description of the Proposed Amendment Effects & Any Additional Service :		
The proposed amendment will provide additional administrative services to reduce net costs for diabetic testing supplies by selecting two preferred products. Services provided under this amendment include contracting, utilization steerage and rebate collection.		
15) Explanation of Need for the Proposed Amendment :		

Diabetic testing supplies are not included in the CMS Medicaid or First Health supplemental rebate programs because they are designated as devices. The anticipated rebate capture through this amendment is approximately \$500,000 monthly.

16) Name & Address of Contractor's Current Principal Owner(s) :
(not required if proposed contractor is a state education institution)

First Health Services Corp.
Teresa R. DiMarco, President
4300 Cox Road
Glen Allen, VA 23060

17) Documentation of Office for Information Resources Endorsement :
(required only if the subject service involves information technology)

select one: ☒ Documentation Not Applicable to this Request

☐ Documentation Attached to this Request

18) Documentation of Department of Personnel Endorsement :
(required only if the subject service involves training for state employees)

select one: ☒ Documentation Not Applicable to this Request

☐ Documentation Attached to this Request

19) Documentation of State Architect Endorsement :
(required only if the subject service involves construction or real property related services)

select one: ☒ Documentation Not Applicable to this Request

☐ Documentation Attached to this Request

20) Description of Procuring Agency Efforts to Identify Reasonable, Competitive, Procurement Alternatives :

This contractor was identified as a result of Request for Proposal (RFP), a competitive process initiated by the Department of Finance and Administration, Bureau of TennCare. These amended changes are brought about as a result of pharmacy changes and the Contractors willingness to provide these services.

21) Justification for the Proposed Non-Competitive Amendment :

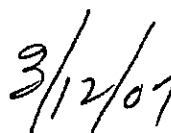
First Health Services Corporation was identified by competitive means as the contractor to provide Point of Sale (POS) Pharmacy Claims Processing and Preferred Drug List Development and Management. The changes in this amendment will provide Diabetic Supply products; due to reduction in claims volume associated with the reduction in the TennCare population, no additional funds are required to support the extension of term. The Bureau of TennCare would appreciate the approval of this amendment by F&A.

REQUESTING AGENCY HEAD SIGNATURE & DATE :

(must be signed & dated by the ACTUAL procuring agency head as detailed on the Signature Certification on file with OCR— signature by an authorized signatory will be accepted only in documented exigent circumstances)



Agency Head Signature



Date

C O N T R A C T S U M M A R Y S H E E T

021406

RFS #	Contract #
318.65-128	FA-04-15757-05
State Agency	State Agency Division
Department of Finance and Administration	Bureau of TennCare
Contractor Name	Contractor ID # (FEIN or SSN)
First Health Services Corporation	<input type="checkbox"/> C- or <input checked="" type="checkbox"/> V- 540849793 03

Service Description

Point of Sale (POS) Pharmacy Claims Processing and Preferred Drug List Development and Management

Contract Begin Date	Contract End Date	SUBRECIPIENT or VENDOR?	CFDA #
January 1, 2004	December 31, 2007	Vendor	93.778 Dept. of Health & Human Services/Title XIX

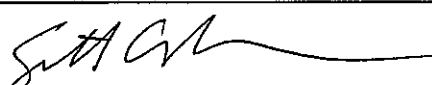
Mark Each TRUE Statement
☒ Contractor is on STARS

☒ Contractor's Form W-9 is on file in Accounts

Allotment Code	Cost Center	Object Code	Fund	Funding Grant Code	Funding Subgrant Code
318.65	073	134	11		

FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2004	\$1,453,500.00	\$1,453,500.00			\$2,907,000.00
2005	\$4,757,822.00	\$4,757,822.00			\$9,515,644.00
2006	\$8,487,366.00	\$8,487,366.00			\$16,974,732.00
2007	\$2,775,350.00	\$2,775,350.00			\$5,550,700.00
2008	\$1,475,962.00	\$1,475,962.00			\$2,951,924.00
TOTAL:	\$18,950,000.00	\$18,950,000.00			\$37,900,000.00

— COMPLETE FOR AMENDMENTS ONLY —

FY	Base Contract & Prior Amendments	THIS Amendment ONLY	State Agency Fiscal Contact & Telephone #
2004	\$2,907,000.00	0	Scott Pierce 310 Great Circle Road Nashville, TN 37228-1752 (615) 507-6415 State Agency Budget Officer Approval  Funding Certification (certification, required by T.C.A., § 9-4-5113, that there is a balance in the appropriation from which the obligated expenditure is required to be paid that is not otherwise encumbered to pay obligations previously incurred)
2005	\$9,515,644.00	0	
2006	\$16,974,732.00	0	
2007	\$5,550,700.00	0	
2008	\$2,951,924.00	0	
TOTAL:	\$37,900,000.00	0	
End Date:	12/31/2007	12/31/2007	

Contractor Ownership (complete only for base contracts with contract # prefix: FA or GR)

☐ African American
 ☐ Person w/ Disability
 ☐ Hispanic
 ☐ Small Business
 ☐ NOT minority/disadvantaged
☐ Asian
☐ Female
☐ Native American
☐ OTHER minority/disadvantaged—

Contractor Selection Method (complete for ALL base contracts— N/A to amendments or delegated authorities)

☐ RFP
☐ Competitive Negotiation
☐ Alternative Competitive Method
☐ Non-Competitive Negotiation
☐ Negotiation w/ Government (e.g., ID, GG, GU)
☐ Other

Procurement Process Summary (complete for selection by Alternative Method, Competitive Negotiation, Non-Competitive Negotiation, OR Other)

**AMENDMENT #5 TO FA 04-15757-00,
THE CONTRACT
BETWEEN THE STATE OF TENNESSEE,
DEPARTMENT OF FINANCE AND ADMINISTRATION,
BUREAU OF TENNCARE
AND
FIRST HEALTH SERVICES CORPORATION**

This Amendment, by and between the State of Tennessee, Department of Finance and Administration, TennCare Bureau hereinafter referred to as the "State" or "TennCare" and First Health Services Corporation, hereinafter referred to as the "Contractor," is for the provision of Pharmacy Management and Preferred Drug List Services, as further defined in the "SCOPE OF SERVICES" is amended as follows:

1. Delete A.12 in its entirety and replace with the following:

A.12. Diabetic Supplies

A.12.1. Definitions

- 12.1.1. *Diabetic Supply Products* shall mean blood glucose monitoring equipment and associated test strips reimbursed by TennCare on behalf of Recipients within the point-of-sale pharmacy benefit.
- 12.1.2. *Recipient* shall mean an eligible TennCare member, as communicated to Contractor by the Bureau of TennCare on the daily 834 enrollment file.
- 12.1.3. *Preferred Product List* shall mean a list of Diabetic Supply products has decided are the most efficacious and cost-effective products for Recipients.
- 12.1.4. *Rebate or Discount* shall mean a price reduction for pharmaceutical products collected by FHSC attributable to products dispensed to Recipients.

A.12.2. Cooperation with Audit. Upon reasonable advance notice, TennCare agrees to authorize Contractor to provide data necessary for the performance of any audit by a manufacturer of products included in the Preferred Product List that has paid Rebates to Contractor on behalf of TennCare.

A.12.3. Preferred Product List Development and Administration

- 12.3.1. Preferred Product List Development. The Contractor shall develop recommendations for the Preferred Product List for use by TennCare.

12.3.1.1. The Preferred Product List shall be comprised of Diabetic Supply Products chosen based primarily on an analysis of the relative safety and efficacy of a product as compared to other Diabetic Supply Products. The analysis shall be based upon a review of relevant clinical information, including but not limited to, FDA approved package inserts and supporting studies and peer reviewed medical journal articles.

12.3.1.2. The Contractor shall provide a written overview of the relative safety and efficacy of Diabetic Supply Products on an annual basis.

12.3.1.3. The Contractor shall consider the cost of the products to TennCare, net of all Rebates and recipient disruption in making its recommendations and shall provide TennCare with a report showing the net costs of Diabetic Supply

Products and the savings to be achieved by inclusion of various products within the Preferred Product List.

- 12.3.1.4. Upon request, the Contractor shall assist TennCare with the development and/or review of disease management programs for the treatment of diabetes that involve the use of Diabetic Supply products. This assistance shall involve the sharing of recipient testing frequency and test results as it relates to diabetes and related diseases.

12.3.2. Rebate Contracting and Administration

- 12.3.2.1. Manufacturer Contracting. The Contractor shall negotiate contracts with manufacturers of Diabetic Supply Products. The negotiated contract shall provide a rebate to TennCare as stipulated in Attachment D. Upon execution of Amendment Five and adoption of the Preferred Product List, the Contractor shall add TennCare as a participating state under such agreements for those manufacturers with products included on the Preferred Product List and shall renegotiate such agreements no less often than annually.

- 12.3.2.2. Invoicing, Reconciliation and Dispute Resolution. No later than sixty (60) days after the end of each calendar quarter, the Contractor shall invoice pharmaceutical manufacturers for Rebates earned by TennCare for pharmaceutical products dispensed to Recipients. Upon execution of the amendment, rebate accrual shall begin with claims dated 30 days prior to implementation of the prior authorization requirement for non-preferred products. In accordance with the contracts with such manufacturers, the Contractor shall collect rebates. Rebates collected on behalf of TennCare shall be remitted by the 15th of each month for any amounts collected for the previous month. The Contractor shall resolve any discrepancies between invoiced amount and the manufacturer's payment of such Rebates as described in A.2.2.2.

- 12.3.2.3. TennCare will be entitled to one hundred percent (100%) of all funds collected by the Contractor attributable to TennCare utilization.

- 12.3.3. Interventions/Education.** The Contractor shall recommend and execute interventions against particular non-preferred Diabetic Supply Products. Such interventions shall include:

12.3.3.1. Notification to Providers

The Contractor shall be responsible for all provider/prescriber notifications as part of this contract, and any and all amendments thereto. TennCare shall have review authority of all notice prior to distribution. The Contractor will identify all potentially impacted Recipients, and notify their prescriber, and their pharmacy provider of the preferred products. These notices shall be delivered by US Mail. Additionally, the Contractor shall include general notice to providers by including notice in one or more weekly check/RA cycles. These notices shall also be distributed electronically for those providers who have provided e-mail addresses. Providers/Prescribers to the largest groups of Recipients shall also be visited by the Contractor's Provider Educators, and/or Manufacturer representatives to inform them of the details of this program.

12.3.3.2. Implementation of Prior Authorization Program

Following sufficient notification of the preferred products to the Providers/Prescribers communities, and upon approval of the TennCare Bureau, the Contractor shall code its claims processing system to allow only the preferred products to process electronically. Non-preferred products shall be denied for Prior

Authorization, with a supplemental message identifying the preferred products. The Contractor's Clinical Call Center shall be provided criteria to evaluate exception requests. Such Prior Authorization requests for non-preferred products shall not be billable to the Bureau of TennCare.

12.3.3.3. Member/Provider Calls

Inbound telephone calls made to the Contractor's Technical and Clinical Call Centers in relation to this program shall not be billable to the Bureau of TennCare, nor outbound telephone calls or faxes.

12.3.3.4. Provider Education Sessions

The Contractor shall coordinate Provider Education sessions at various locations throughout the State. These education sessions shall target education specific to the preferred diabetic supply program. No fewer than ten (10) such sessions shall be conducted at program start-up. Additional sessions shall be conducted if requested by the Bureau of TennCare. Such provider education sessions shall be conducted by Contractor personnel other than those already dedicated under section A.3.6 hereto.

12.3.3.5. Coordination of Manufacturer Education Efforts

The Contractor shall coordinate education efforts with manufacturers, including implementation communications with providers, wholesalers and pharmacies, meter distribution through provider outlets and physician communications. A description of manufacturer education efforts shall be included in the Monthly Activity Report specified in section A.12.3.4.1. below.

12.3.4. Reporting. The Contractor shall provide to TennCare the following reports:

12.3.4.1 Monthly Activity Report: A report showing the activities that have occurred in the previous month regarding the program, shall be due no later than the 15th of each calendar month

12.3.4.2. Rebate Billing Report: A report showing Rebate amounts invoiced to pharmaceutical manufacturers on TennCare's behalf, shall be due within sixty (60) days after the end of each calendar quarter.

12.3.4.3. Rebate Remittance Report: A report showing the Rebate amounts collected on TennCare's behalf shall be submitted with each remittance of Rebates.

12.3.4.4. Dispute Resolution Report: A report showing the resolution of any discrepancies between the Rebate amounts collected on TennCare's behalf and the amounts invoiced shall be submitted with each remittance of Rebates.

12.3.4.5. Preferred Product List Compliance Report: A report showing the compliance with the Preferred Product List, shall be due no later than the 15th of each calendar month.

12.3.4.6. Non-Preferred Supply Attrition Report: Starting on the 15th of the month after the Prior Authorization requirement begins and thereafter on the 1st and 15th, a report showing the fill status of recipients whose initial claim denied as a non-preferred product.

2. Delete Section C.3 in its entirety and replace with the following:

- C.3. Payment Methodology. The Contractor shall be compensated based on the Service Rates herein for units of service authorized by the State in a total amount not to exceed the Contract Maximum Liability established in Section C.1. The Contractor's compensation shall be contingent upon the satisfactory completion of units of service or project milestones defined in Section A. The Contractor shall be compensated based upon the following Service Rates:

Monthly Fee Year 1 \$484,500.00
Monthly Fee Year 2 \$346,750.00
Monthly Fee Year 3 \$351,500.00 (01/01/2006 – 06/30/2006) \$297,900.00 (07/01/2006 – 12/31/2006)
Monthly Fee Year 4 \$297,900.00 (01/01/2007 – 12/31/2007)
Monthly Fee Year 5 (if renewed by amendment) \$361,000.00

In addition to the monthly fee, TennCare will compensate the Contractor as provided herein in accordance with specified rates in Attachment B (Revised April 1, 2007) and Attachment C. The Contractor shall submit monthly invoices, in form and substance acceptable to the State with all of the necessary supporting documentation, prior to any payment. Such invoices shall at a minimum, include: the numbers and types of pharmacy claims adjudicated; separately itemized actual payments made to pharmacy service providers for each pharmacy claim adjudicated; subtotal for all pharmacy claims adjudicated; subtotal of all actual payments; the comprehensive monthly fee in effect, and the total amount due to the Contractor for the period invoiced.

3. Delete Revised Attachment B (Revised July 1, 2006) and replace with Revised Attachment B (Revised April 1, 2007).
4. Add Attachment D, Blood Glucose Strip Rebate Guarantee.

The other terms and conditions of this contract not amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF:

FIRST HEALTH SERVICES CORPORATION:

Richard C. Born, President

Date

**DEPARTMENT OF FINANCE AND ADMINISTRATION
BUREAU OF TENNCARE**

M. D. Goetz, Jr., Commissioner

Date

APPROVED:

DEPARTMENT OF FINANCE AND ADMINISTRATION:

M. D. Goetz, Jr., Commissioner

Date

COMPTROLLER OF THE TREASURY:

John G. Morgan, Comptroller of the Treasury

Date

ATTACHMENT B (REVISED 04/01/2007)
TennCare Contract Amendment Pricing

Initiative	Sub-Initiative	Implementation Fee (1)	Pre-Operational Call Center Fee (per Week) (2)	Monthly Administrative Fee (3)	Call Center Rates (4)			
					Fee Per Non-Clinical Resolution	Rx Technician	Pharmacist	Physician
Administrative Edits	DEA Number Edit	79,514	N/A	-	3.55	N/A	N/A	N/A
	Prescriber Last Name Edit	145,079	N/A	-	3.55	N/A	N/A	N/A
	Drug to Gender Edit	69,086	N/A	-	N/A	N/A	15.45	45.70
	Gross Amount Due Edit	165,362	N/A	-	3.55	N/A	N/A	N/A
	Maximum Dollar Amount Edit	69,086	N/A	-	N/A	N/A	15.45	N/A
	Unit of Measure Edit	121,926	N/A	-	N/A	7.36	N/A	N/A
Clinical Edits	MAC/DAW	95,157	11,015	-	N/A	7.36	N/A	N/A
	Drug Dosage & Dose Optimization Edit	78,397	10,246	-	N/A	7.36	15.45	45.70
	Drug Duplication of Therapy Edit	229,233	55,326	-	N/A	7.36	15.45	45.70
	Drug-Drug	224,763	47,130	-	N/A	7.36	15.45	45.70

	Interaction Edit								
	Drug Duration Edit	78,397	2,049	-	N/A	7.36	15.45	45.70	
	Drug-to-Disease Edit	78,397	4,098	-	N/A	7.36	15.45	45.70	
	OTC Class Elimination	75,045	N/A	-	3.55	N/A	N/A	N/A	
Step Therapy Script Limit Edits		215,080	45,080	-	N/A	7.36	15.45	45.70	
	Hard Limit for Non-Exempts	159,231	29,870	-	3.55	N/A	N/A	N/A	
Tiered Co-pay Edits		173,445	1,102	-	3.55	N/A	N/A	N/A	
MAC		49,645	N/A	-	3.55	N/A	N/A	N/A	
Additional Dedicated Staff (5)	1 Clinical Pharmacist based in Nashville			\$13,738.00					
	2 Provider Educator Pharmacists based in Nashville			\$22,805.00					
	1 Pharmacy Research Scientist			\$15,963.00					
	1 Data Quality Analyst based in Nashville			\$9,400.00					
	1 Systems Liaison based in Richmond			\$12,839.00					
	1 Contract Manager based in Richmond			\$12,871.00					
	1 Business Analyst based in Richmond			\$7,316.00					
	1 Reform Project Manager based 25% in Nashville, balance in Richmond			\$12,501.00					
RetroDUR (Takeover from UT)	2 Mail Room Clerks (ongoing)			\$7,389.00					
				\$46,750.00					
Diabetic Testing Preferred Products				\$31,250.00					
Equipment				-					
Totals				\$192,822.00					

Notes:

- (1) The Call Center Planning and Development deliverable is payable for each initiative upon notice from TennCare to begin implementation of the phase in which the edit resides. Other subcomponents of the implementation fee are payable upon TennCare receipt and approval of the associated deliverable. (see Attachment C)
- (2) Pre-operational call center fees are payable for each initiative (and sub-initiative, as applicable) in the event that TennCare delays the "go live" date. These fees shall begin on the planned "go live" date and cease when the edit actually does "go live" (i.e. hard-edits become fully operational and call center rates become effective) or when TennCare gives notice to cancel the initiative. The "go live" date is specified in the contract as the "date to complete implementation", except as it relates to the Script Limit and Tiered Co-pays. For these groups of edits, the "go live" date shall be communicated in writing by TennCare to First Health no less than 6 weeks prior to the intended "go live" date.
- (3) Monthly administrative fees are payable for each initiative (and sub-initiative, as applicable) upon First Health Services' written notice to TennCare that the initiative is operational or that additional dedicated staff are hired, as applicable. Partial months shall be prorated.
- (4) PDL related prior authorizations are covered under the base contract. For the initiatives added via Amendment Two, prior authorizations will be billed on a "per resolution" basis. If multiple calls are required to resolve a given issue (e.g. issue a Prior Authorization), the Contractor will only bill for a single unit of the highest level call that took place.
- (5) Any System Change Requests made by TennCare and not explicitly described in this Amendment will be billable to TennCare at a rate of \$150 per hour.
- (6) Monthly administrative fees are payable upon authorization from the State and formal initiation the Notification/Education programs. In the event start-up is not at the beginning of a month, fees will be prorated.

Attachment D

Blood Glucose Test Strip Rebate Guarantee

1. The Contractor shall provide a rebate of no less than fifty-four percent (54%) (the "Guaranteed Rebate Percentage") of the WAC price on all preferred blood glucose test strips paid for by TennCare during each calendar quarter.
2. The Contractor shall provide a rebate of 100% (the "Guaranteed Rebate Percentage") of the WAC price on all preferred blood glucose meters paid for by TennCare during each calendar quarter.
3. The Guaranteed Rebate Percentage shall be calculated with each remittance of rebates for blood glucose test strips.
4. In the event that the actual rebate percentage collected on preferred blood glucose test strips is less than the Guaranteed Rebate Percentage, the Contractor shall remit the difference between the actual rebate amount collected and the amount of rebate that would have been paid if the Guaranteed Rebate Percentage had been achieved.
5. The actual rebate percentage achieved for each national drug code ("NDC") number of each preferred blood glucose test strip shall be calculated by dividing the amount of rebates collected by the number of test strips for such NDC multiplied by the WAC price per strip as represented in the following formula:

$$\text{Actual rebate Percentage} = \text{rebate amount collected} / (\text{total number of test strips} \times \text{WAC price per strip})$$

6. The term "WAC Price" shall mean the manufacturer wholesale net price as published by First Data Bank as of the first day of each calendar quarter.